APPENDIX 1.0

Industry Comments in Response
to the April 11, 2005
Federal Register Notice

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Natural Gas Price Comments Table

Name	Title	Affiliation	Primary Industry	Date
Mr. Patrick J. Greene	Group Services Officer	Not given	NADCA - North American Die Casting Association	04/14/2005

Comment

David - we are in the die cast industry and rely on natural gas to convert metal. Our industry has had a significant adverse impact from higher natural gas prices. It has been one of the issues that has forced many die casters to go out of business. Others, including ourselves, have felt the impact via higher costs and resulting lower margins, as our customers will not pay higher prices as a result of the natural gas cost increase. Lower margins impact our capital expenditures and expansion plans directly.

I have copied this email to Dan Twarog, the president of the North America Die Cast Association (NADCA), as he is also very familiar with the issues at hand. Dan - feel free to comment also if appropriate.

Patrick J. Greene
Group Services Office

"Nick Odomirok"
<nodomirok@shurtape.com>
04/14/2005 04:13 PM

To <david.henry@esa.doc.gov>
cc <aub@horizonenery.com>
bcc
Subject Natural Gas prices

David

We received a request to address the issue of rising natural gas prices from our trading partner, Horizon Energy, and welcome an opportunity to respond.

Natural Gas prices have now tripled in the last 24 to 36 months. The energy component of our total cost, as a pressure sensitive tape manufacturer in North Carolina has increased from what was 1% to what is now a total of 3%. In addition, and far more sensitive to us is the impact natural gas prices have on Polyethylene and Polypropylene. Both are derivatives of natural gas and both have increased in price by 2 to 2.5 times during the same period.

Tape is a mature industry with producers located around the world. Many of the business conditions that exist in the USA such as OSHA requirements, Health care, Social Security and Medicare, costs of which have traditionally been borne by US manufacturers, are far more relaxed or "non existent" in Asian countries. In addition, Asian governments subsidize exports providing foreign competitors with an additional advantage that domestic producers are disadvantaged by in a global market. When these conditions are coupled with recent material price hikes, competing becomes an ever more daunting challenge. As a Tape manufacturer, raw materials encompass 75% to 80% of our total cost. During the period of which we speak we have not been in a position to increase our finished product prices to our customers by anywhere near the raw material price increases incurred.

The decisions many manufacturers are being faced with to remain competitive are; to produce or partner off shore or to exit certain "low cost commodity markets". Needless to say, both options directly impact US employment. It is also noteworthy to add that this is not a condition unique to only the tape industry. Many US manufacturers are, or will have to, address similar decisions.

On the "flip side" of this point are the natural effects of market economics. If prices were to continue to increase and manufacturers continue to shift production to low cost markets, domestic demand for natural gas products will decline, prices will ease and the market economists would of course be proven correct. Of course there is a minor often disregarded caveat that weighs in the balance of their decisions, namely "US jobs"? Their jobs as market and economic commentators on CNN and FOX will remain secure regardless of which path is chosen.

Regarding natural gas specifically.....This year, due to a mild winter, we have been blessed with some of the most favorable natural gas storage conditions in the US that we have seen in the last 2 to 3 years. In direct contrast to the expected result of increased supply, prices have gone directly opposite of expectations, skyrocketing to nearly $8.00 from the $5.00-$5.50 range of the same time last year. Is this a direct result of fund managers chasing commodities in their portfolios due to the lack of excitement in the traditional equities market? Can anything be done to protect price integrity of the manufacturer, who is a user of the commodity and not merely a trader?

Having said all of this I'm pleased that the subject is being addressed and I

complement the departments efforts to raise awareness and in finding a fair solution.

Sincerely,

Nick Odomirok
VP Materials Management
Shurtape Technologies LLC

Craig Schultz
<craig@energybuyingstrategies.com>

04/14/2005 10:59 AM

To David.Henry@esa.doc.gov
cc
bcc
Subject Natural Gas Price Impacts on Industry

April 13, 2005

David Henry
Office of Policy Development
Economic and Statistics Administration
U.S. Department of Commerce
14th Street & Pennsylvania Avenue, N.W., Room 4875
Washington, DC 20230

Re: Natural Gas Price Impacts on Industry

Dear Mr. Henry,

I applaud the Commerce Department on its study of how natural gas price issues affect U.S. manufacturers. Based on my company's research on natural gas pricing, I am submitting brief comments for your study.

Natural gas prices have indeed seen a dramatic shift since 2000. For example, the 12-month futures strip of natural gas prices on the New York Mercantile Exchange averaged $2.18/MMBtu between 1994 and 1999. Since 2000, that same strip has averaged $4.78/MMBtu, a 119% difference between the two periods. (Data from closing prices for each trading day between January 3, 1994, and April 12, 2005).

This price increase seems to have arisen from steadily increasing domestic demand for natural gas that has not been matched by a rise in North American gas supply. Beyond continued conservation and efficiency measures, the most potent ways to reduce gas prices include:

(1) Decreasing the incredibly strong growth in gas used by electric power plants; and

(2) Increasing the availability of foreign gas supplies through LNG imports.

Because virtually all new power plants have been gas-fired, electric generators' share of national gas consumption continues to rise. Between 1997 and 2004, annual gas use for electric power generation rose by 1,287 Bcf (billion cubic feet), or 32%. In contrast, annual gas use by the industrial sector declined by 1,213 Bcf, or 14%, over the same seven-year period. Natural gas deliveries to commercial and residential customers also declined over the 1997-2004 period. (Data are from the "U.S. Natural Gas Consumption by End Use" table, Energy Information Administration, U.S. Dept. of Energy).

Gas-fired power plants have recently and are expected to continue to account for the vast majority of net growth in

U.S. gas demand. This has bolstered natural gas prices. A policy shift towards encouraging more use of coal for domestic power generation should decrease both natural gas prices and electricity prices. Further, increased coal use would reduce our nation's reliance on foreign fuel sources. The availability of clean coal technologies to mitigate the environmental impact of coal-burning makes this policy more palatable now than it has been in the past.

Turning towards the supply end of the gas price equation, LNG offers the best hope of price relief in the intermediate term. Because natural gas can be extracted at such low costs in other parts of the world and can reach our shores at costs several dollars per MMBtu below current market prices, there are obvious opportunities. The U.S. Department of Energy reports that, although LNG imports are growing at 30%+ per year, they still only represented 2% of national gas consumption as recently as 2003. The expansion of existing LNG import terminals and the construction of new terminals would allow more inexpensive gas to come into this country and relieve some of the upward price pressure on natural gas. This would benefit U.S. manufacturers.

However, a policy of encouraging LNG terminal construction brings with it two important issues. It would increase our nation's dependence on fuel from foreign sources and related political complexities. In addition, despite the good record of the LNG industry to date, there are relevant concerns about the safety and vulnerability to terrorism of LNG facilities.

These brief remarks are meant to highlight a couple of the issues regarding the natural gas prices faced by U.S. manufacturers. If there is additional information that my firm can provide or other ways in which I can support the efforts of your office, please let me know.

Respectfully Submitted,

Craig Schultz

Author Bio: Mr. Schultz is President of Energy Buying Strategies, Inc., a consulting firm that works with end-users to reduce the costs and risks of their deregulated energy purchases. Prior to founding this firm, Mr. Schultz served in management positions at two large natural gas suppliers to the end-user market and held an analytic position at the U.S. Department of Energy. Mr. Schultz can be contacted at (240) 731-0065 or craig@energybuyingstrategies.com.

"Cashdollar, Robert E" <RECashdollar@ApacheNitro.com>
04/18/2005 04:33 PM

To "'david.henry@esa.doc.gov'" <david.henry@esa.doc.gov>
cc
bcc
Subject RE: Docket No. 05031090-5090-01 "Impact of Increased Natural Gas Price"

Dear Mr. Henry,

I am writing in relation to the Federal Register Volume 70, Number 86 notification on Docket N0. 05031090-5090-1 titled "Impact of Natural Gas Prices on USA Industry".

I want you to know that the impact natural gas prices has had is likely much broader or far reaching than simply the impact on industry. There is also a significant impact on the agricultural growers in the USA, and the mining industry for copper, coal and other ores. The cost of natural gas has resulted in a surge of new off-shore fertilizer production in locations such as Trinidad and other areas where natural gas is low cost. This is one element in the trade balance equation affecting the USA. As such, numerous USA fertilizer producers have ideled facilities, due to high manufacturing costs, and mainly due to natural gas conversion economics. The market price of the commodity landed in the USA is generally set by the World demand, cost of manufacturing in the USA, and demang logistics within the USA verses production location.

As a specific example, it takes roughly 34.5 MMBTU (Note 1) per short-ton of anhydrous ammonia to produce the building block fertilizer for other agricultural chemicals such as nitric acid, ammonium nitrate, urea, and urea ammonium nitrate. For your convenience, I've provided some rough formulas on the relative cost impact for each $1/MMBTU increase in natural gas price and an average impact of $4.79/MMBTU, which is likely representative of the change in national average. Following is that information:

Approximate commodity price increase for a $1/MMBTU increase in gas cost is:

- Anhydrous Ammonia (NH_3) = $1.00 x 34.5 gas conversion ratio = $34.50/st
- Ammonium Nitrate (NH_4NO_3) = $1.00 x 34.5 gas conversion x 0.457 conversion ratio = $15.73/st (note 4)
- Nitric Acid = $1.00 x 34.5 gas conversion x 0.300 conversion ratio = $10.35/st (note 4)
- UREA = $1.00 x 34.5 gas conversion x 0.585 conversion ratio = $20.18/st (note 4)
- UAN-32 = $1.00 x 34.5 gas conversion x 0.360 conversion ratio = $12.42/st (note 4)

12 year average gas price through 1998 $1.75 (note 2) - Current gas March 18, 2005 San Juan Midpoint $6.54 (Note 3)
Therefore the approximate increase in the commodity price for a $4.79/MMBTU

increase in gas cost is:

- Anhydrous Ammonia (NH_3) = $4.79 x 34.5 gas conversion ratio = $165.26/st
- Ammonium Nitrate (NH_4NO_3) = $4.79 x 34.5 gas conversion x 0.457 conversion ratio = $75.52/st
- Nitric Acid = $4.79 x 34.5 gas conversion x 0.300 conversion ratio = $49.58/st
- UREA = $4.79 x 34.5 gas conversion x 0.585 conversion ratio = $96.67/st
- UAN-32 = $4.79 x 34.5 gas conversion x 0.360 conversion ratio = $59.49/st

Note:

1. See The Fertilizer Institute or other industry publications for the average manufacturing plant efficiency data
2. historic gas data provided to ANPI in 1998 for the El Paso, San Juan Basin by EPNG
3. recent natural gas data published in Platts Gas Daily, 18 March 2005 for the San Juan Basin
4. gennerally recognized conversion factors in the industry from NH_3 to other nitrogen fertilizers

I might suggest that potential sources of data might include The Fertilizer Institute and the Institute for Agriculture and Trade Policy .

http://www.tfi.org/Statistics/index.asp
http://www.pf.com/fertilizer_gm.asp

Robert E. Cashdollar, Jr.
President & CEO
Apache Nitrogen Products, Inc.

Jim_Painter@linpac.com
04/18/2005 10:00 AM

To david.henry@esa.doc.gov
cc Joe_Gasperetti@linpac.com
bcc
Subject Natural Gas Prices

Dear Mr. Henry,

I understand that you have requested input on the effect of natural gas prices on our business. Lin Pac, Inc is mainly a paper manufacturing and corrugated board producer. We use a considerable amount of natural gas in our manufacturing processes. Natural gas has more than doubled in the past two years making our company less competitive with foreign companies and has cost us approximately $4,000,000 to $6,000,000 a year. Many years out total profit does not amount to this much. Not only has the price of natural gas been artificially inflated with the suppliers, brokers and financial guys but now the transportation is tied to the price of natural gas, which makes no sense at all. However, there is only one pipe line that supplies us so it is take it and pay the price or go out of business.

Industry and home owners need the help of the DOE to help us control these costs. We have had to spend millions of dollars to install alternative methods of producing steam which reduces our competitiveness world wide.

I can provide more specific information if you wish

Thanks, in advance, for your help and concern,

James V. Painter
Vice President & General Manager
LINPAC Paper
139 Price Farm Rd.
Cowpens, SC 29330
864-463-9090

James_Rader@mohawkind.com
04/18/2005 05:42 PM

To david.henry@esa.doc.gov
cc
bcc
Subject ENERGY PRICES

As the Energy Manager for Aladdin Mfg. Corp, a Fortune 500 company, I have to deal with rising energy prices everyday. Our corporation uses about 30,000 MCF of natural gas daily. Not only has gas increased drastically, but so have all the other energy sources such as electricity, fuel oil, propane and coal. In addition we see add-on fuel surcharges for freight. SInce we use petroleum based products as our basic raw material the impact on our costs has been dramatic. On top of all this we're probably spending several hundred thousand dollars a year in additional manpower just to produce the recordkeeping and paperwork necessary to comply with the Sarbanes-Oxeley Act. That Federal law has limited our ability to fuel switch because the law is so restrictive and difficult to understand. According to our gas marketers, the cause of much of the price increase in natural gas is a direct result of the Enron debacle. A deposit of $5,300 per contract (10,000 decatherms) is now required. Many gas marketers don't have that amount of cash nor the financial ability to withstand the monetary loss when the deposit is returned WITHOUT interest at the conclusion of the contract. As a result financial houses and speculators (financial wizards but energy neophytes) have leaped into the fray. This has led to the chaotic and baffling market conditions of higher prices for no apparent physical reason. We see favorable storage reports, moderate temperatures, and an absence of hurricanes and yet the market in gas futures goes up, not down. It defies explanation. Add to this the intentional misreporting of gas injection numbers that have spiked the market several times in the past, and one begins to have a strong suspicion of market manipulation. I've always postulated that the most dangerous terroristic threat to the U.S. economy is your average American businessman. I can well recall the Savings & Loan scandals of the past, and I fear a repeat of that. Much of this came about as American manufacturing transitioned in the 60's and 70's when men of vision who felt the heartbeat of their respective businesses were replaced by accountants and lawyers who think wealth can be created by manipulating numbers on a sheet of paper. The higher prices do have one upside. As you know industry does nothing that doesn't reduce costs. The higher prices are making executives take a much harder look at conservation. Projects that didn't have a good economic payback in the past now look much more attractive. Perhaps in the long run we'll find a better energy mousetrap. Certainly today's prices are motivating us in that direction, but suffocating Federal mandates certainly are having the reverse effect. If the Federal government wants to help American industry they need look no further than themselves. Jim Rader

ALLISON L SUTER
<alsuter@usieagles.org>
04/18/2005 05:53 PM

To david.henry@esa.doc.gov
cc
bcc
Subject Natural Gas Price impacts on Industry

I believe that rising natural gas prices will help the economy. As a consumer I think that it will negatively impact me. Unless we find an alternative there is no way that we won't use natural gas for heat, electricity, and fuel. This might help the industry, but it will keep putting a dent in my paycheck. I'm not getting paid anymore, but my bills still rise because of natural gas prices rising. I think we need to find an alternative and fast. I'm sure businesses don't like having to pay more for natural gas either to run their businesses. Thank you for reviewing my comment.
Sincerely,
Allison

Manufacturers Alliance/MAPI
Knowledge · Solutions · Results · 1933

1600 Wilson Boulevard, Suite 1100, Arlington, VA 22209-2594
703·841·9000 703·841·9514 fax **www.mapi.net**

April 14, 2005

Mr. David Henry
U.S. Department of Commerce
Economics and Statistics Administration
Office of Policy Development
14th Street & Pennsylvania Avenue, NW
Room 4875
Washington, DC 20230

[Docket No. 050331090-5090-01]

Dear Mr. Henry:

Enclosed please find a recent report from the Manufacturers Alliance/MAPI, ***Liquefied Natural Gas and the Future of Manufacturing***, which we are submitting as a comment in response to your April 11, 2005 "Notice of inquiry" published in the ***Federal Register*** (70 Fed. Reg. 18,359) with regard to Docket No. 050331090-5090-01, "Impact of Increased Natural Gas Prices on U.S. Industries."

This comprehensive study offers significant insights into a major challenge facing U.S. manufacturers—that absent new sources of natural gas supply, the price of this crucial energy resource is almost certain to climb steeply, thereby cascading negatively through the U.S. economy. Allowed to escalate, this concern will further weaken the competitive position of the energy-dependent manufacturing sector, especially in relation to competitors with less expensive supplies, and ultimately lead to more job and production loss as manufacturers are induced to relocate abroad.

The price of U.S. natural gas has more than doubled in the past few years, is now 25 percent higher than in Europe, and could increase by as much as 80 percent in the next 15 years.

The report argues that the costs may be addressed by building new terminals and expanding imports of liquefied natural gas (LNG), which could meet over 22 percent of projected domestic consumption by 2010, and raising this level of supply would actually ***reduce*** the cost of natural gas by 20 percent to 25 percent below current levels.

Please feel free to contact our energy expert, author, and economist Donald A. Norman at (704) 657-5106 if you desire to discuss this report in detail.

Sincerely,

Thomas J. Duesterberg
President and Chief Executive Officer

TJD:mcr
Enclosure

"Burns, Pat"
<Patrick.Burns@precisionfabrics.com>
04/21/2005 11:11 AM

To <david.henry@esa.doc.gov>
cc
bcc
Subject Fedback on High Natural Gas Prices

David,

I am the Co-CEO of Precision Fabrics group, Inc., a $150 million in sales textile manufacturer. Needless to say, my industry is one that is under a lot of pressure from a variety of different directions. The volatility in the natural gas market during the last 4 to 5 years has really made it much more difficult to run our business and to justify additional investments in our business.

PFG operates in niche, technical markets. Most of the value we add is created by the unique chemistries we apply to our fabrics. In applying these chemistries (and drying the fabrics), PFG consumes a lot of natural gas – particularly for a company our size – about 500,000 decatherms annually. For several decades, natural gas cost PFG about $3/decatherm at the burner tip. We did not worry about volatility. In the past several years, we have seen a general trend upward in prices, and much more volatility. For a business in a challenged industry with little pricing power, rising natural gas prices are difficult enough to deal with. The large increase in volatility has added another level of complexity that we're struggling to cope with. We do not have the expertise in house to run sophisticated hedging operations, nor could we afford to even if we wanted to.

Natural gas sued to be a cost item that we paid little attention to. Now, at $6-$7 dollars per decatherm and with lots of volatility, natural gas has become a topic at every one of our Board meetings. Current prices are depressing our profitability, and ruining our ability to reinvest in our business.

Pat Burns
Co-CEO and CFO
Precision Fabrics Group, Inc.
301 N. Elm Street, Suite 600
Greensboro, NC 27401

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Natural Gas Price Comments Table

Name	Title	Affiliation	Primary Industry	Date
Mr. Martin E. Edwards	Vice President, Legislative Affairs	Interstate Natural Gas Association of America	Natural Gas Pipeline	04/21/2005

Comment

Mr. Henry,

The Interstate Natural Gas Association of America (INGAA) would like to submit the enclosed report, entitled "An Updated Assessment of Pipeline and Storage Infrastructure for the North American Gas Market: Adverse Consequences of Delays in the Construction of Natural Gas Infrastructure," as part of your inquiry on the economic impact of high natural gas prices on the industrial sector. INGAA represents the interstate and interprovincial natural gas pipeline industry in North American. Our members transport over 90 percent of the natural gas consumed in the U.S., through a 200,000 mile pipeline network. In addition, the association's members include the owners of the existing on-shore liquefied natural gas (LNG) import terminals in the continental U.S., as well as the developers of several proposed new LNG terminals.

The American industrial sector has been severely impacted by the increase in natural gas commodity prices that have occurred over the last five years. For industries in which natural gas is a significant fuel or feedstock, such as chemical and fertilizer manufacturing, these higher commodity prices are driving manufacturing away from the U.S. to lower commodity cost regions of the world. Unfortunately, thousands of American jobs have been lost as a result, and luring many of these jobs back to the U.S. will be extremely challenging. Before the problem grows even worse, the U.S. needs to undertake a substantial effort to enhance both natural gas supply and infrastructure.

INGAA has advocated the expansion of pipeline, LNG importation and natural gas storage capacity, in order to mitigate higher prices and reduce price volatility during periods of heavy demand. The report outlines the required level of infrastructure expansion needed over the next fifteen years to satisfy market demand, and discusses some of the economic impacts *if this infrastructure expansion is delayed*. Industrial consumers are some of the most price-sensitive -- and therefore have the most to lose -- if gas infrastructure is not expanded in a sufficient manner over the next decade.

INGAA appreciates the opportunity to submit this report for your analysis. Please let me know if you have any questions.

Martin E. Edwards III
Vice President, Legislative Affairs
Interstate Natural Gas Association of America

"Jon Long"
<cdsjon@pngusa.net>
05/02/2005 03:36 PM

To <david.henry@esa.doc.gov>
cc
bcc
Subject NATURAL GAS PHENOM!!!

MR. HENRY, I'M A SMALL BUSINESS MAN IN SOUTHWEST OHIO AND WE USE ABOUT 3,000 MMBTU A MONTH AND WHEN THE PRICE OF N.GAS INCREASE LIKE IT DOES, IT HAS AN ADVERSE EFFECT ON MY BOTTOM LINE. WE UNDERSTAND THE UPS AND DOWN IN A FREE MARKET AND REALLY DO NOT WANT THE GOVERNMENT INVOLVED, BUT THE PRICES ARE NOT JUSTIFIED AND THAT IS THE ENIGMA. I CAN'T GO INTO MY MARKET AND GET A 37% INCREASE ON MY PRODUCTS. I WISH I COULD, BUT THE MARKET IS VERY INELASTIC AND COMPETITIVE. I'M ESPECIALLY CONCERNED ABOUT THE TRUST FACTOR INVOLVED IN THE N.GAS MARKET. AFTER WHAT HAPPENNED BACK ON NOVEMBER 22ND OF 2004. THE UNIDENTIFIED CLERK AT DOMINION E-MAILED THE WRONG FILE TO THE DEPT. OF INFORMATION ADM. THE EIA OFFICIALS DIDN'T NOTICE THE SEPTEMBER DATE ON THE E-MAIL, CONSEQUENTLY IMPACTING EVERYONE THAT PROCURES N.GAS. WHEN SOMETHING LIKE THIS CAN HAPPEN REGARDING THE WITHDRAW NUMBERS, AND I HAVE TO STILL PAY FOR IT, SOMETHING IS DREADFULLY WRONG IN THE MARKET PLACE. I CAN'T DO THAT IN MY BUSINESS. I REALLY FEEL LIKE THIS WRONGFUL ACT HAS BEEN THE CATYLIST FOR FICTITIONAL PRICEING AND A LACK OF TRUST FROM THE CONSUMER. IT ISN'T RIGHT AND THERE IS RECOMPENSE FOR A LOT OF BUSINESSES AND CONSUMERS.
AGAIN, WE UNDERSTAND MARKET CONDITIONS, BUT WHAT IS GOING ON HERE IS ABSURD (NOT MARKET) AND IT MAKES US ALL WONDER ABOUT WHAT'S GOING ON. IF SOMETHING LIKE THIS CAN HAPPEN AND I HAVE TO PAY FOR IT, NO TELLING WHAT IS ELSE IS GOING ON WITH THE HEDGE FUND GUYS. IT'S NOT RIGHT AND WE ARE DO SOME CASH.
WE ARE THE UNITED STATES OF AMERICA AND WE SHOULD HAVE SOME LEVERAGE . WE HAVE BUYING POWER AND PROCURE N. GAS FROM A LOT OF DIFFERENT SUPPLIERS, SO I WOULD THINK THAT THE CRAZY FLUCTUATIONS SHOULD BE A LITTLE MORE SETTLE. BUSINESS IS TUFF ENOUGH, BUT I CAN'T BUDGET WITH ERRONEOUS NUMBERS FROM SOME CLERK. IT COST ME DEARLY, THIS MARKET REMINDS ME NOW OF PROFESSIONAL BOXING, WHAT A JOKE. INVESTIGATING TO SEE IF SOMEONE SCHEMED AND BENEFITED FROM IT IS THE WRONG APPROACH. THE REAL ISSUE IS, " WHO GOT HURT BY IT "?
I HOPE YOU CAN DO SOMETHING FROM THE FEED BACK YOUR GOING TO RECIEVE. IT JUST MAKES SENSE IF ENERGY IS REASONABLE AND HANDLED LEGALLY, EVERYONE BENEFITS.
GOOD LUCK AND GOD BLESS....JONATHAN K. LONG

"O'Dell, Clete"
<clete.odell@roechling-plastics.us>
05/05/2005 03:41 PM

To <david.henry@esa.doc.gov>
cc <aub@horizonenergy.com>, <eric@horizonenergy.com>
bcc
Subject Natural Gas Prices

RÖCHLING

Engineered Plastics

Manufacturer of:
Polystone M (UHMW)
Polystone G (HDPE)
Polystone P (Polypropylene)

Dear Henry,

I am writing you to express our company's concerns over rising energy costs as it relates to natural gas. Since January of 2002, we averaged annual usage of 49,446 dt per year increasing our usage over this time period by 13%. During this same period our amounts for this usage has gone from $173,299 in 2002 to a projected amount for 2005 of $397,812, an increase of $224,513 or 130%. We are what I would describe as a small to medium sized company, although we are part of a global group. An increase of this magnitude has adversely effected our bottom line profits.

We purchase resins to produce our semi finished plastic products and have incurred increases from our suppliers who use a significant amount of natural gas in their process. We are in a very competitive industry where increasing prices are very difficult to accomplish in the market place. As a result of this situation, we have seen some of our competitors begin to establish locations in India and China in order to produce with less expense. Obviously there are other factors that enter into this type decision than natural gas prices but it is getting increasingly difficult to manufacture in the United States with costs that are out of control. Natural gas certainly falls into this category, along with rising health care cost, just to mention another.

We have on occasion found it less expensive to use #2 fuel oil in our process in place of natural gas. This source of energy is less efficient for us in our process and does not burn as clean as natural gas. This situation has led us to question how or if we should plan future investments.

The extreme rise in prices appear to be unfounded as it relates to supply and demand and, in our opinion, have been driven up artifcially by heavy speculative interests. More than 300 hedge funds now focus on some type of energy trading and that number is projected to double this year. Prior to this influx of trading activity in the natural gas market, prices were relatively stable with consistant seasonal fluctuations.

Our company has been located in Gaston county, North Carolina, since 1989 and we currently employ approximately 91 employees. We want to grow and continue contributing to the local economy and ultimately, our shareholders. The situation with natural gas is making it very difficult to be as successful as we need to be.

Sincerely,

Clete O'Dell
Controller

PO Box 2729 Hwy 321 North (704) 922-7814 Ext. 235
Gastonia, NC 28053-2729 (704) 922-1835 Fax

http://www.roechling-plastics.us

e-mail: clete.odell@roechling-plastics.us

American Gas Association

PAUL WILKINSON
Vice President
Policy Analysis

May 12, 2005

Mr. David Henry
U.S. Department of Commerce, Economics
& Statistics Administration
Office of Policy Development
14th Street & Pennsylvania Avenue, N.W., Room 4875
Washington, D.C. 20230

Dear Mr. Henry:

I am writing on behalf of the American Gas Association to commend the Commerce Department for undertaking a study of the impact of higher natural gas prices on the industrial sector, and to share with you a recent study that may support your efforts.

The American Gas Association represents 195 local energy utility companies that deliver natural gas to more than 56 million homes, businesses and industries throughout the United States. AGA member companies account for roughly 83 percent of all natural gas delivered by local natural gas distribution companies in the US. We commend the Department of Commerce for undertaking this study and we urge you to convey your findings to the Congress in a most forceful fashion.

Natural gas has been the primary source of energy in the industrial sector for decades, valued for its efficiency, environmental attributes, unique chemical qualities and economic attractiveness. While we are firmly convinced that substantial quantities of natural gas exist both domestically and worldwide to support natural gas-based industrial growth, we are deeply concerned that little action has been taken to increase access to U.S. sources of natural gas, and that the new infrastructure required to produce, import, store, transport and distribute natural gas is generally blocked rather than expedited. The failure to increase supply in response to rising demand has caused a serious market imbalance that has persisted for over four years, with both higher and more volatile natural gas prices, and there is no relief in sight.

The industrial sector of the economy, faced with strong competition from abroad, is particularly vulnerable to current and projected higher natural gas prices. A study prepared for the American Gas Foundation in February of this year – *Natural Gas Outlook to 2020, Outlook and Options for the Future* (copy attached) – concludes that energy consumption in the industrial sector was roughly 15 percent lower in 2003 than in the late 1990's. Further, it projects that energy consumption in this sector will grow by only 0.3 percent annually through 2020 – about one-fifth the rate of growth experienced in the 1990's. While some of this decline is attributable to greater energy efficiency, much is due to plant shutdowns and overseas relocation in response to reduced competitiveness.

Again, AGA fully supports the objectives of your analysis and we would be pleased to assist you in any way we can in this effort. More importantly, however, we urge the relevant agencies and Congress to act immediately and aggressively to rectify the situation that we believe your study will portray.

Thank you for this opportunity to comment, and please don't hesitate to contact me if you have further questions or concerns.

Paul Wilkinson

Tom_Gilroy@americanchemistry.com
05/12/2005 01:32 PM

To david.henry@esa.doc.gov
cc
bcc
Subject "Natural Gas Price Impacts on Industry"

Attached are comments by the American Chemistry Council for ESA's "Impact of Increased Natural Gas Prices on U.S. Industries." Please contact me at the telephone number of email address below if you have questions.

(See attached file: NaturalGasPricesImpact.doc)

Thomas J. Gilroy
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NaturalGasPricesImpact.doc

Comments on the Impact of Increased Natural Gas Prices on U.S. Industries

Submitted to the Economics and Statistics Administration – U.S. Department of Commerce

by the American Chemistry Council

May 16, 2005

The American Chemistry Council is pleased to submit these comments on natural gas price impacts on U.S. industry. ACC represents the leading companies engaged in the business of chemistry. ACC members apply the science of chemistry to make innovative products and services that make people's lives better, healthier and safer. ACC members are committed to improved environmental, health and safety performance through Responsible Care, common sense advocacy designed to address major public policy issues, and health and environmental research and product testing. The business of chemistry is a $504 billion enterprise and a key element of the nation's economy. It is one of the nation's largest exporters, accounting for ten cents out of every dollar in U.S. exports. Chemistry companies are among the biggest investors in research and development. Safety and security have always been primary concerns of ACC members, and they have intensified their efforts, working closely with government agencies to improve security and to defend against any threat to the nation's critical infrastructure.

The unbalanced and volatile U.S. natural gas market has had a severe impact on the chemical industry. Today, U.S. natural gas prices are the highest in the world – over $7 per million BTUs, versus $5.25 in Europe, $4.50 in China and Japan and $1.25 or less in the Middle East and Russia.

The chemical industry is the backbone of our nation's manufacturing sector. It is the largest industrial user of natural gas. The chemical industry uses natural gas for heat and power, but also as a raw material, a key ingredient, used to make thousands of products that consumers use every day.

The chemical industry has been especially hard hit – its natural gas costs increased by $10 billion over the past two years, it has lost more than $50 billion in business to overseas operations, and watched more than 100,000 jobs ($1/10^{th}$ of the U.S. chemical workforce) disappear since 2000.

Business Week magazine published a story in its May 2, 2005 edition entitled, "No Longer the Lab of the World, US Chemical Plants Closing in Droves as Production Heads Abroad." This carefully researched article provides ample evidence of the severe damage historically high natural gas prices have had on the U.S. chemical

industry, and by extension the entire U.S. manufacturing sector. The following excerpts from *Business Week* article graphically illustrate the quandary the chemical industry is in:

- **"Only a decade ago the U.S. was the world's top spot for making chemicals.....Today none of that is true...And in a crippling reversal, U.S. natural gas prices are the highest in the world."**

- **"Chemical companies closed 70 facilities in the U.S. in 2004 and already have tagged 40 more for shutdown....Industry employment is now below 880,000, down from over 1 million as recently as 2002."**

- **"..of 120 chemical plans being built around the world with price tags of $1 billion or more, just one...is in the U.S.....China, by comparison, has 50. The U.S. has gone from a privileged position to where it's hard to find a rationale to put anything here."**

- **"As recently as 1997, the U.S. posted a trade surplus in chemicals of almost $20 billion... (now) the nation's balance of trade in chemicals, a rock-steady surplus for 80 years, has become a deficit."**

- **"For the U.S., the likely results are less investment, fewer jobs, and fewer scientific discoveries....Innovation may be the nation's next casualty. Production facilities need engineers to run them and scientists to do workaday research. So as capital investment migrates, these tasks will too."**

- **"Across the industry, capital investment is being herded away from the U.S. toward the Middle East and Asia....while U.S. plants are being turned over to salvagers."**

According to figures published by the U.S. Commerce Department on April 12, 2005 the U.S. trade deficit has risen to an all-time monthly high of $61 billion – lending further evidence to the exodus of manufacturing from the U.S. The chemical industry once had the nation's most favorable balance of trade – nearly $20 billion in the 1990's, but now posts a $4 billion deficit.

As bad as the natural gas crisis is today, it is expected to deepen, further widening the gap between supply and demand. Experts predict demand will far outpace supply by nearly 10 trillion cubic feet (TCF) in the future. Today the U.S. consumes roughly 22 TCF, and predictions are by 2010 demand will be over 25 TCF and by 2025 will top 30 TCF. What actions are being taken today to prevent this decade's growth in demand for natural gas from requiring further demand destruction from the industrial sector?

Higher Natural Gas Prices Shift Chemical Industry Investment Overseas

The May 2, 2005 edition of *Business Week* magazine article succinctly provided ample evidence of the severe damage historically high natural gas prices have had on the U.S. chemical industry and how it has promoted a shift in production overseas.

With a mature market and the movement of customer industries overseas, companies are shifting investments toward regions offering lower feedstock costs (and cost of production) as well as in markets experiencing a higher degree of dynamism. The absence of a comprehensive US energy policy ensuring adequate and diverse supplies will retard investment (and subsequent job creation) in the United States. This is equivalent to "capital flight."

This on-going geographical shift in spending by American chemical companies is evidenced by the allocation of capital budgets among American Chemistry Council member companies. Every few years, The American Chemistry Council conducts a survey of long-term geographic investment intentions (US vs. foreign locations) and results from the latest reveal significant changes in distribution patterns.

Geographic Focus of US Basic & Specialty Chemical Company Capital Budgets
(Unless noted otherwise, % share of total)

	2004	2009	Change in Share
United States	71.1	58.6	-12.5
Canada	2.3	2.7	0.4
Japan	0.6	0.7	0.1
Western Europe	16.6	16.7	0.1
Central & Eastern Europe	0.5	1.7	1.2
China	2.9	9.1	6.2
Asian NICs	1.9	5.0	3.1
Other Asia	0.3	0.8	0.5
Mexico	1.4	1.6	0.2
Latin America	1.9	2.2	0.3
Africa & Middle East	0.6	0.9	0.3
Total	100.0	100.0	

American chemical companies are planning to significantly boost their investments in the Asia/Pacific regions. This region's share of the capital budget will nearly triple during the five-year period from 2004 to 2009. Investments in China in particular will increase (threefold) as a share of capital budgets. Strong expansion of the share going to the Asian NICs and other Asian nations will gain as a share of total capital budgets. Even Japan will witness slightly higher investment. US chemical companies plan to allocate greater capital investment in Africa & the Middle East, Central & Eastern Europe, Mexico and Latin America. Canada (with abundant hydrocarbon resources) and Western Europe will

receive a larger share of capital. All of the aforementioned expansions of share will occur at the expense of projects in the United States.

How did we get in this predicament? Concerns with the nation's overall air quality led the federal government to encourage use of cleaner burning fuels in the 1990's. Electric utilities switched from burning coal to natural gas, and today electricity generation consumes 25% of all domestic natural gas.

Ironically, at the same time the federal government policies encouraged greater use of natural gas, it also imposed moratoria on large sources of domestic natural gas supplies out of environmental concerns. Today much of our nation's sizeable natural gas reserves are off-limits to exploration and production, despite the fact that today's technology can safely remove natural gas with minimal disruption to the surrounding environment.

The situation the chemical industry faces today is reversible – if Congress takes action to restore natural gas to globally competitive prices. Thankfully, it appears that some in the U.S. Congress are starting to realize that our nation is in the depths of an energy crisis and are taking steps to address the crisis so that our nation's eroding chemical and manufacturing base is revitalized and returned to being the robust engine that drives our economy.

In early April 2005, Senators Lamar Alexander (R-TN) and Tim Johnson (D-SD) introduced bipartisan legislation, S. 726, The Natural Gas Price Reduction Act which recognizes the enormity of the nation's natural gas crisis and provides the keys to bringing the problem under control.

Senator Alexander and Johnson demonstrate a thorough understanding of the steps needed to address the natural gas crisis. The bill proposes to:

- Curb consumption of natural gas by aggressively implementing a number of energy efficiency measures;
- Invest in development and implementation of new technologies, such as coal gasification;
- Improve the system for storing and transporting natural gas; and
- Create greater access to our own domestic sources of natural gas.

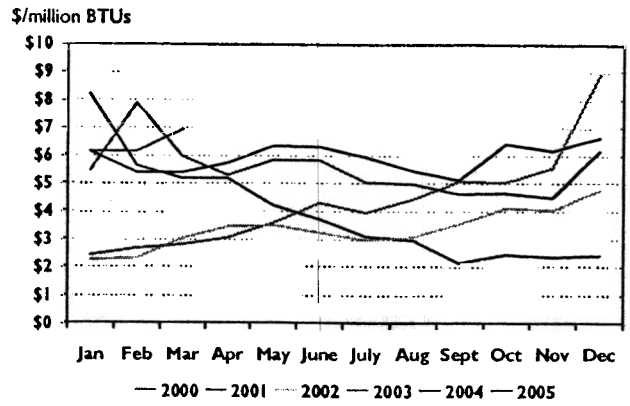
The American Chemistry Council applauds the introduction of S. 726. It is an important step towards enacting a sorely needed balanced national energy plan. ACC has urged the Senate Energy & Natural Resources Committee to fully adopt S. 726 as it writes its comprehensive energy legislation.

Every day that Congress fails to confront and address this crisis, more jobs are lost to foreign operations and more residential consumers must choose between heat or food. Only Congress can solve these problems and put the long-term economic future of the nation back on track.

Since late-2000, there have been two major spikes in natural gas prices and recently, prices have settled in the range of about $7.00 per million BTUs. This is triple historical levels. The figure to the right illustrates how prices have generally trended upwards since 2000.

More recently, high oil prices have affected natural gas prices as well and prices have generally been above $7.00 per million BTUs. The United States now has the highest natural gas costs in the world, as the accompanying figure titled "Natural Gas Costs around the World" illustrates. The data in the figure are for mid-March.

Natural Gas Prices



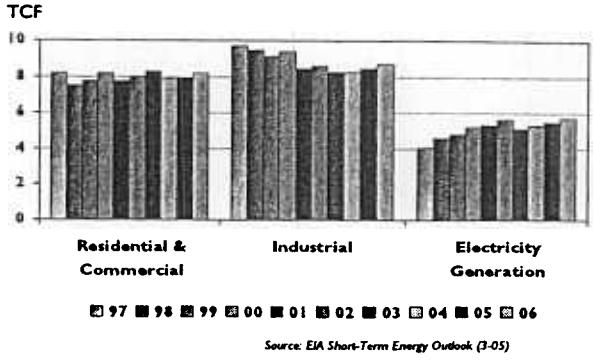
Source: Energy Information Administration

Fundamentally, the problem is one of demand for natural gas exceeding available supply. This has resulted in record natural gas prices in the United States and the highest natural gas prices in the world. During the last decade various environmental and other government policies have promoted the use of natural gas. At the same time, little was done to foster supply of natural gas. Natural gas demand is growing in all sectors but underlying economics suggest a fundamental imbalance in natural gas supply and demand that is unlikely to recede in the short-term. However, growing demand by electric utilities is resulting in demand destruction in the industrial sector. Utilities are generally allowed by state regulators to fully pass on their additional fuel costs to customers. Industrial companies, however, face international competition and have generally not been able to pass on these costs. This results in utilities' gas demand being somewhat price insensitive and has resulted in plant closures and job losses among the industrial sector. This demand destruction is illustrated in the above figure titled "Natural Gas Consumption Trends by Sector". The source is the March 2005 *Short-Term Energy Outlook* prepared by the Energy Information Administration (EIA) of the US Department of Energy. Moreover, the EIA projects even further increases in natural gas prices. Actions of ACC member companies would question the availability of natural gas needed to increase industrial demand as projected by the EIA. We have member companies that

Natural Gas Costs around the World
($US per million BTUs)

use natural gas as a raw material with plans to shut down U.S. production facilities and import these products across this period. The gravity of the current natural gas imbalance is so pronounced that Federal Reserve Chairman Alan Greenspan has raised concerns about the issue.

Natural Gas Consumption Trends By Sector



Source: EIA Short-Term Energy Outlook (3-05)

The Effects of Higher Natural Gas Prices Quantified

To better understand the role of natural gas price shocks on the economy, the American Chemistry Council used the Oxford Economic Forecasting (OEF) Global Model to examine the effects of large run-ups in natural gas prices on the U.S. economy. The OEF Global Model is a quarterly linked international econometric model that provides an analyst with the ability to examine how economies react to shocks to the economic environment, perform scenario analyses and produce forecasts. The model contains independent price, production and consumption variables for oil and natural gas, which can be changed to produce customized simulations. The model is linked to the OEF international industrial model.

Changing the natural gas price assumptions and then comparing the results of the model solution with a baseline simulates the effects of higher natural gas prices. The current analysis examines the effects of a sustained natural gas price rise of roughly $3.50 per million BTUs over prior levels. This is roughly what has occurred since the first spike in natural gas costs.

The results of economic modeling suggest that the effects of sustained higher natural gas prices have a negative effect on the US economy. The following table presents the deviation from the base case that occurs with these sustained higher prices. Unless noted otherwise, the data are presented as a deviation from the baseline expressed as percentage points.

Deviation from Base Case:
The Case of Sustained High Natural Gas Prices
(Unless noted otherwise, percentage point deviation from base case)

	Year 1	Year 2	Year 3
Growth in Gross Domestic Product (GDP)	-0.2	-0.3	-0.4
Growth in Consumer Spending	-0.3	-0.5	-0.3
Growth in Disposable Personal Income (DPI)	-0.5	-0.3	-0.1
Savings Rate	-0.3	-0.2	-0.1
Non-Farm Employment (thousands)	-99	-330	-549
Unemployment Rate	neg	+0.2	+0.3
Inflation – Consumer Prices	+0.4	+0.3	0.0
Current Account Balance (billions)	-$15.7	-$25.2	-$37.2
Federal Budget Balance (billions)	-$9.4	-$21.1	-$28.2
Short-Term Interest Rates (basis points)	+14	+29	+15
Long-Term Interest Rates (basis points)	+12	+29	+23
Growth in Industrial Production	-0.1	-0.4	-0.7
Production – Total US Chemical Industry	-0.1	-0.8	-1.1
Production – Basic Chemicals	-0.3	-1.5	-3.2

Higher natural gas prices act much like a tax on consumers, depressing disposable personal incomes and savings, and ultimately consumer spending, which accounts for two-thirds of the economy. The results of the analysis indicate a decline in aggregate demand in combination with the shock to the supply side. This results in a lower economic growth rate, about 0.3% less per year. With a $12 trillion economy, that's about $36 billion in reduced GDP.

Econometric evidence indicates that lower economic growth results in lessened job creation (about 325,000 fewer jobs on average during the first three years) and a higher unemployment rate. At the same time, inflation as measured by the consumer price index would accelerate and interest rates would rise.

Rapidly rising US natural gas prices adversely affect the industrial sector, resulting in less production and lower capacity utilization. In turn, this affects profits and corporate cash flow and coupled with higher interest rates, would lead to lower business investment (or capital spending). The most recent recession was led by a severe downturn in capital spending. Higher natural gas prices have the effect of hampering capital spending so needed for a sustained economic expansion. It is capital spending that is critical to fostering long-term productivity growth and rising incomes and wealth.

In addition, the current account balance deteriorates, as would the federal deficit and deficits run by state and local governments. The deterioration in government balances

occurs as tax receipts fall short of expectations and as higher unemployment increases benefit claims. Most state and local governments are currently facing fiscal difficulties and the Federal government is running record deficits. The analysis suggests that the current account balance deteriorates by over $35 billion after three years as does the Federal deficit (by about $28 billion) as tax receipts fall short of expectations because of lower economic growth and as higher unemployment increases benefit claims.

For energy-intensive sectors such as farming, cement, aluminum, steel and chemicals, the effects would be even more severe. For the business of chemistry, the effects would be felt across all segments. Basic chemicals would face severe competitive disadvantages as over 70% of feedstocks are derived from natural gas. Exports would falter and imports would rise. In addition, lessened industrial activity would result in lower demand. Over the extended period, the basic chemicals segment suffers the most.

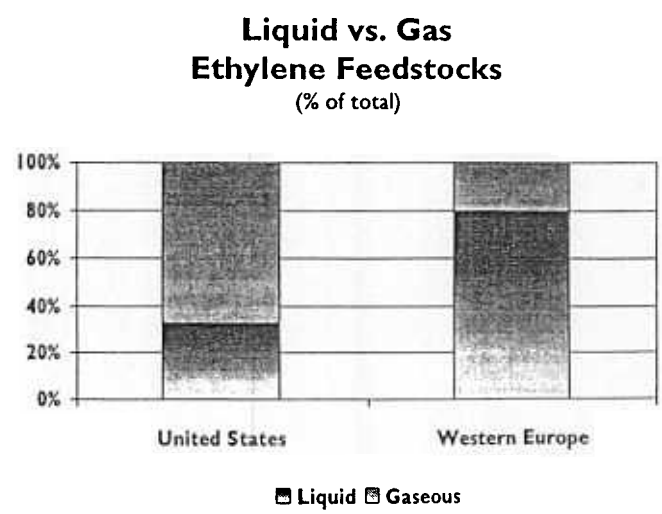
Effects on Industry

Higher natural gas prices in particular affect the competitiveness of industries using natural gas as input for fuel and power and as raw material. This occurs because natural gas markets are generally national (or regional) in nature. As a result, exporting industries in the United States and Canada face higher costs vis-à-vis competing nations, as the latter do not incur these costs. Natural gas is generally a regional market (e.g., North America) as it is not widely traded globally. Thus, natural gas markets outside of North America are largely unaffected. For energy-intensive sectors such as farming, cement, aluminum, steel and chemicals, the effects are quite severe.

Rising natural gas costs have been one factor in the exploding manufactured goods deficit, which increased from $330.2 billion in 1999 to a record $612.1 billion deficit in 2004. During the period from 1999 to 2004, manufacturing sector payrolls declined 17%, about 3.0 million people.

Effects on the Chemical Industry

The US chemical industry is the largest industrial user of natural gas, consuming one-eighth of total natural gas demand. Higher natural gas prices in particular severely diminish the competitiveness of the industry as it uses natural gas not only as inputs for fuel and power, but also as a raw material (feedstocks).



Worldwide the feedstocks for most petrochemicals are ultimately derived from either oil or natural gas. Oil includes heavy liquids such as naphtha and gas oil. Natural gas includes natural gas liquids such as ethane, propane, and butane. The

price of a feedstock is largely determined by the price of oil or natural gas. Unlike oil and naphtha, which can be imported or exported in large quantities, natural gas markets are generally regionally constrained because of physical limitations in moving natural gas over long distances. Oil and naphtha prices are determined in a global market.

Rising natural gas prices directly affect the natural gas liquids market. Both ethane and propane, widely used in the United States as feedstock, have fuel value and can be left in the gas stream along with methane, to sell as natural gas. Methane is another constituent of natural gas. Besides its thermal value, it's directly used to produce methanol as well. As an alternative to fuel, ethane, propane and butane can be processed into liquids to be sold as feedstock. Because prices of these feedstocks rise in proportion with natural gas prices, a petrochemical producer has to offer more than the equivalent fuel value plus processing cost to induce a gas processor to remove the liquids and shrink the natural gas stream.

Rising natural gas prices directly affect the natural gas liquids market. Higher natural gas liquid (ethane, propane, etc.) feedstock costs can place much of the Gulf Coast-based petrochemical production in a position of diminished competitiveness relative to other major producing regions. In the US, 70% of ethylene, for example, is derived from natural gas liquids while in Western Europe, 70% is derived from naphtha, gas oil and other light distillate oil-based products. These competing nations face raw materials costs that reflect global, not the regional markets affecting natural gas prices in North America. U.S. petrochemical facilities are based on converting natural gas liquids and cannot be economically converted to use other feedstocks. This is a significant driver for new investment capital being spent in other regions and reducing exports from the U.S.

The US net trade position in chemicals swung from an $8.3 billion surplus in 1999 (before the first natural gas price spike) to a deficit of $9.6 billion in 2003. In 2004, rising global demand improved the trade deficit to $3.6 billion. We anticipate further erosion in the net trade position as new petrochemical facilities are built in regions of the world with lower raw material costs.
Not only do high natural gas prices affect the chemical industry directly, but to the extent that these prices contribute to the deterioration of competitiveness in downstream end-use customer industries (rising imports and movement overseas), the chemical industry is also negatively affected. The chemistry content of this is measurable and during the period since the first natural gas price hike (1999-2004), the business lost from these end-use customers totaled $25.8 billion. Combined with the $11.9 billion swing in the trade position, this represents $37.7 billion in lost sales.

During this period, chemical industry employment fell by 96,000, about 10%. Losses occurred in virtually every state. The decline has continued and based on data from the Bureau of Labor Statistics now exceeds 105,000 jobs.

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May 16, 2005

Mr. David Henry
U.S. Department of Commerce
Economic and Statistics Administration
Office of Policy Development
14th & Pennsylvania Avenue, NW
Washington, DC 20230

Re: Natural Gas Price Impacts on Industry

Dear Mr. Henry:

On behalf of the Process Gas Consumers Group ("PGC"), and in response to the Department of Commerce's Notice of Inquiry issued April 11, 2005, seeking comments on the impact that recent increases in natural gas prices have had and will have on U.S. manufacturing industries, I hereby submit the National Petroleum Council's September 2003 report entitled "Balancing Natural Gas Policy: Fueling the Demands of Growing Economy" ("NPC Study"). This Study includes a detailed and comprehensive analysis of the current state of the natural gas industry and includes focused discussion on the future outlook for the industrial manufacturing sector in the face of higher energy costs. As the Leader of the NPC's Demand Task Group's Industrial Utilization Subgroup, I urge the Department and Congress to examine the NPC study, recognize the significant adverse impacts of higher natural gas prices on U.S. industry, and take aggressive action, in concert with the suggestions in the NPC Study, to adopt policies that improve demand flexibility and efficiency, increase supply diversity, sustain and enhance natural gas infrastructure and promote efficiency in natural gas markets.

PGC is a national trade association of industrial gas consumers who require natural gas in many of their key operations. PGC works to promote coordinated, rational, and consistent federal and state policies relating to natural gas and its transportation. PGC member companies represent a broad cross-section of U.S. industry, both geographically and in terms of products produced, including metals (steel and aluminum), cars, fertilizer, food and grain products, textiles, chemicals, glass and other manufactured products. These industrial operations employ millions of people and consume over half a trillion cubic feet of gas annually. Members of PGC have been particularly hard hit by escalating natural gas prices.

As the NPC Study points out, industrial consumers used about 7.2 TCF of natural gas in 2002. This constitutes about 32% of total U.S. gas consumption. Natural gas is used as boiler fuel, for process heat and, for some industrials, such as chemical and fertilizer producers, natural gas is used as a feedstock for which there is seldom any substitute, and therefore, as a result of the tripling of prices, industrial manufacturers have shuttered plants, laid-off workers and cut production.

Although some industrial applications can use alternative fuels, the reality is that fuel switching is generally not the panacea for higher natural gas prices that some believe. A recent report indicates that fuel switching capacity in the U.S. has shrunk to the point that it no longer provides an effective escape valve for gas demand when prices soar. This report, from the Canadian Energy Research Institute, states that while industrials may have the technical capability to burn alternative fuels, "in many instances the equipment itself has deteriorated from a lack of use and would have to be replaced." In addition, the capital investment to maintain multiple fuel equipment may be prohibitive for some industrials. Moreover, in some instances the environmental and other regulatory hurdles make it a practical impossibility to rely on any fuel other than natural gas.

As the NPC study found, certain industrial sectors have been particularly hard hit by higher natural gas prices. For example, higher U.S. natural gas prices have resulted in temporary as well as permanent shut down of fertilizer plants throughout the United States. For example, as the NPC study reports, "the U.S. nitrogen operating rate fell to below 70% of capacity by the end of December 2000; by the end of January 2001, operating rates dropped to an all-time low of only 46% due to the significant rise in U.S. gas pries during January 2001. To put this into perspective, the average U.S. operating rate during the 1990s was 92%." NPC Study, Vol. III at 3-41.

The chemical industry is another industry suffering from the escalating natural gas prices. As the NPC study found, "energy for both fuel and power needs and feedstocks account for up to 85% of total production costs" in the chemical industry. NPC Study, Vol. III at 3-44. "Higher energy prices can have a substantial impact on the chemical industry. Reflecting higher fuel costs, the industry spent $31.4 billion in 2001 on purchases of fuel, power, and feedstocks, up 5% from 2000 and 65% from 1999. As natural gas prices rose in December 2000 and January 2001, about 50% of the U.S. methanol capacity, 40% of ammonia capacity, and 15% of the U.S. ethylene capacity, which depend on natural gas or natural gas derivatives as feedstocks, were idled. With prices spiking again in 2003, much of this capacity remained idle during the first half of 2003." NPC Study, Vol. III at 3-44.

PGC underscores its commitment to the continuation of deregulated natural gas commodity prices. Although American industry has been hurt in recent years by higher energy

prices, we in no way seek a return to the era of federally mandated prices. Rather, we encourage policy makers to find other market-oriented solutions to increase natural gas supplies and to encourage a diverse fuel portfolio that will serve to moderate energy prices.

PGC appreciates the Department's efforts to collect and analyze this information and commends the NPC Study to you as an important resource as well as an important roadmap to the future. PGC stands willing to offer whatever additional assistance is needed, should the Department require any additional information on this important topic.

Sincerely,

Dena E. Wiggins
General Counsel
Process Gas Consumers Group

Enclosures

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To <david.henry@esa.doc.gov>

cc "Ford West" <FWest@tfi.org>, "Corey Henry" <chenry@tfi.org>, "Harriet Wegmeyer" <HWegmeyer@tfi.org>, "Harry Vroomen"

bcc

Subject Natural Gas Price Impacts on Industry

For: David Henry/U.S. Department of Commerce

David:

Please find attached The Fertilizer Institute's comments regarding the Department of Commerce Notice of Inquiry on the Natural Gas Price Impacts on Industry. Please confirm by return e-mail that you received these comments. If you have any questions, please do not hesitate to contact TFI.

Thank you.

Everett Zillinger

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The Fertilizer Institute

Nourish, Replenish, Grow

May 16, 2005

David Henry
U.S. Department of Commerce
Economics and Statistics Administration
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Room 4875
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Re: Comments on Docket No. 050331090-5090-01, Department of Commerce, Economics and Statistics Administration, Office of Policy Development, Notice of Inquiry, published in the *Federal Register* on April 11, 2005, (Volume 70, Number 68).

To Whom It May Concern:

The Fertilizer Institute (TFI) appreciates the opportunity to comment on the Department of Commerce Notice of Inquiry regarding the Impact of Increased Natural Gas Prices on U.S. Industries.

TFI represents the nation's fertilizer industry. Producers, manufacturers, retailers, trading firms and equipment manufacturers which comprise its membership are served by a full time Washington, D.C., staff in various legislative, educational and technical areas, as well as with information and public relations programs.

Fertilizer and America

There are three basic forms of commercial plant nutrients for world crop and food production: nitrogen fertilizer, phosphate fertilizer and potash fertilizer. U.S. farmers annually invest more than $11 billion in these critical plant nutrients.

On the average, Americans spend only approximately 10 percent of their disposable income on food. Efficient application of commercial plant nutrient fertilizers by U.S. farmers contributes significantly to the low cost of food for the vast majority of American consumers. The North American fertilizer industry, together with its farmer-customers and America's efficient food processing system, are largely responsible for our nation's safe, abundant and affordable food.

However, North American fertilizer manufacturers and our nation's food security are increasingly jeopardized when our nation's energy reliability is compromised by insufficient natural gas and power supplies. To maintain a strong and viable U.S. fertilizer manufacturing base, an efficient agriculture and food production system, and to maintain this nation's abundant,

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safe and affordable food supply, the United States needs numerous new sources and a significantly greater supply of natural gas, reliable electricity, and the transmission and distribution infrastructure to transport this energy to where it is needed. Abundant supplies of natural gas and other forms of energy are essential to keep North American agriculture competitive in the world marketplace.

Fertilizer and Energy

The United States needs reliable and plentiful supplies of natural gas for nitrogen fertilizer production, to meet critical agriculture and food production needs. Natural gas is the fundamental feedstock ingredient for the production of nitrogen fertilizer and represents 70 to 90 percent of the production cost of one ton of anhydrous ammonia – the building block for most other forms of commercial nitrogen plant nutrients. The nitrogen fertilizer industry accounts for approximately 3 percent of the total natural gas consumed in the nation.

The National Impact

The current U.S. natural gas crisis is exacting a heavy toll on America's nitrogen fertilizer producers and the farmer customers they supply. The resulting negative financial impact on the North American fertilizer industry is unprecedented and threatens to irreversibly cripple the U.S. nitrogen fertilizer manufacturing industry. America's food security, and by extension, our national security will be jeopardized if action is not taken to address our country's current natural gas crisis.

Prior to the significant increase in natural gas prices, the U.S. nitrogen industry typically supplied approximately 85 percent of U.S. farmers' nitrogen fertilizer needs. However, as a result of the ongoing natural gas crisis in America, the U.S. is now much more dependent on imported nitrogen fertilizer. In total, 21 nitrogen fertilizer (ammonia) production facilities have closed since FY1998/99 (July 1998-June 1999). Sixteen of those plants have closed permanently, representing a 25 percent drop in total U.S. production capacity, while five plants remain idle.

Operating rates for the U.S. ammonia industry have also declined significantly from historical levels. Operating rates, which averaged 99 percent of production capacity for the period 1990-99, averaged only 82 percent from 2000 through 2004. The permanent and temporary closures in combination with the drop in operating rates have resulted in a 35 percent decline in U.S. ammonia production from 17.85 million tons of material in FY1998/99 to 11.70 million tons in FY2003/04.

To meet the fertilizer needs of U.S. farmers, nitrogen imports have increased significantly. Nitrogen imports rose from 6.11 million tons of N in FY98/99 to 10.36 million tons in FY2003/04. Consequently, the domestic nitrogen industry currently supplies only about 55 percent of U.S. farmers' nitrogen fertilizer needs, with the remainder supplied by imports.

Farmers paid record prices for the most widely used nitrogen fertilizer materials in the spring of 2001, the first season after natural gas prices rose significantly, and the prices of those materials reached new record highs this spring as indicated below.

Fertilizer Prices Paid by U.S. Farmers

	Average 1990-2000	Spring 2001	Spring 2005
	Dollars per material ton		
Anhydrous ammonia	245	399	416
Nitrogen solutions – 30%	144	189	215
Urea	216	280	332
Ammonium nitrate	198	260	292
Ammonium sulfate	169	192	244

Source: Agricultural Prices, National Agricultural Statistics Service, USDA.

The spring (April) price of anhydrous ammonia was up 63% from its 1990-2000 average in 2001 and stood 70% above this average in 2005. Similarly, spring 2005 prices for the other major nitrogen fertilizer materials were up 44-54% from the 1990-2000 averages.

The U.S. Department of Energy projects that by 2010 the nation's demand for natural gas will increase 30 percent and by 2020 Americans will consume 62 percent more natural gas than today. The Energy Information Administration has estimated that approximately **92%** of the electricity production capacity now under construction is expected to be gas-fired.

Since fertilizer is a commodity business, the world market sets the price for fertilizer products. Fertilizer producers are price takers and increased costs – like the increased energy costs currently being experienced by U.S. fertilizer producers – cannot be simply passed on through the price of the product. U.S. agriculture and food production is currently structured around a strong domestic North American fertilizer manufacturing system and a "just in time" transportation and retail storage infrastructure to serve farmers and food producers quickly and efficiently during the peak spring and fall planting seasons.

The increased reliance on nitrogen imports has strained the U.S. fertilizer distribution system. If U.S. farmers became even more dependent on imported fertilizer products, this infrastructure would need to be radically changed to accommodate the increase in fertilizer imports. These infrastructure changes would come at substantial cost in the form of higher nitrogen prices paid by farmers. These changes would also require significant investment with potentially significant fertilizer delivery delays to U.S. farmers and food producers.

Fertilizer and Electricity

Phosphate and potash fertilizers originate as minerals and are mined from surface (phosphate) and deep shaft (potash) mines. The mining and production process for these fertilizers use significant amounts of electricity and also generate electricity using cogeneration facilities fueled by industrial waste heat. This process should be considered a "green source" of electricity. In regions where these mineral fertilizers are mined (Florida, North Carolina, New Mexico, Idaho, Canada and others) reliable and affordable supplies of electricity are critical to maintain manufacturing facilities at peak production and energy use efficiencies.

The U.S. Department of Energy estimates that demand for electricity will increase 43 percent by 2020, requiring the construction of more than 1,300 new power plants—about 65 per year. A balance of fuel sources including clean coal, nuclear, industrial cogeneration and hydropower are vital to power these new plants. If the majority of new electricity generating plants use natural gas as a fuel source, as is the current trend, then critical manufacturing and processing industries that use natural gas as a feedstock, such as the North American nitrogen fertilizer industry, will be uncompetitive in the world market. As a result, domestic U.S. production of this necessary food production input will be jeopardized.

Energy Solutions

To address the natural gas and electricity crisis currently facing U.S. consumers and fertilizer manufacturers, TFI and its membership strongly support the following policy proposals and are working to see their inclusion in federal energy legislation and policy.

The North American fertilizer industry supports:

1. Increasing the supply of natural gas, including specific production incentives

    (a) Selected tax incentives for production of high-cost natural gas (tight formation, coal seams and deepwater).

    (b) Selected tax incentives for investment in assets and technologies used in exploring for natural gas.

    (c) Opening of additional federal lands and offshore areas to environmentally sensitive exploration efforts.

    (d) Increased staff and infrastructure to expedite permitting process for exploration on federal lands and Outer Continental Shelf.

2. Elimination of disincentives relating to the use of conventional fuel sources, such as coal, oil and nuclear, for electric power production

   (a) Allowing owners to make improvements, modifications and expansions of existing coal-fired power plants without invoking the application of new air quality requirements.

   Expediting the re-licensing process for hydro and nuclear plants.

3. Increasing natural gas pipeline capacity by expediting and streamline the approval process for new natural gas pipeline projects.

4. Supporting tax and other incentives for the production of electricity from industrial process waste heat sources

5. Supporting research into "clean coal" and coal gasification technologies to produce electricity.

6. Promotion of alternative fuel sources such as biomass and renewable fuels.

7. Encouraging greater use of energy sources other than natural gas for those uses, unlike fertilizer production, where there is an alternative.

8. Supporting energy conservation efforts.

   Tax incentives/credits for consumers who install energy-saving materials and technologies in their homes.

   Efforts to update the nation's vehicle fleet and take older vehicles out of service.

9. Providing assistance to farmers facing high-energy costs.

   (a) Tax rebates on fuel and/or fertilizer purchases.

   (b) Reduced taxes on diesel fuel.

10. Improving the electricity delivery infrastructure.

   (a) The construction of additional electric power transmission lines.

(b) FERC efforts to place transmission lines under the control of independent Regional Transmission Organizations (RTOs) when these transfers are completed on a cost effective basis.

(c) Delegating federal powers of eminent domain to RTOs attempting to build FERC-approved lines.

11. Opposition to efforts to repeal PUHCA or PURPA on a stand-alone basis.

Additionally, TFI believes that increased U.S. imports of liquefied natural gas (LNG) is vitally important in the effort to solve this nation's ongoing natural gas crisis. U.S. Federal Reserve Chairman Alan Greenspan said a drastic increase in LNG capacity is needed to serve as a "safety valve" to ease natural gas price volatility, President George W. Bush has noted his strong support for streamlining the LNG siting process, saying, "I strongly support developing new LNG capacity."

TFI supports the U.S. House of Representatives' "Energy Policy Act of 2005" (H.R. 6), which would streamline and expedite the LNG terminal siting process by codifying FERC's jurisdiction over the siting of onshore LNG import terminals. Article 1 of the Constitution clearly states only Congress can regulate interstate and foreign commerce, and the Natural Gas Act of 1938 derives its authority from that part of the Constitution.

TFI understands that H.R. 6 would not limit the role of the states or their existing rights with regard to federal or state permitting of proposed LNG facilities. To the contrary, FERC would be directed to actively consult with states about state and local safety considerations – a new authority for states in the siting process. H.R. 6 would not relieve LNG projects from full compliance with state or federal environmental laws. TFI supports H.R. 6 and will continue to work for its passage in the U.S. Congress and for it to become law.

Conclusion

Additionally, TFI believes the following recommendations should be included in federal energy legislation and policy. These recommendations include: opening additional federal lands and off-shore areas to oil and gas exploration and production; assuring that these areas have access to the necessary pipeline infrastructure to bring supplies to market; and making it easier to build new liquefied natural gas (LNG) terminals by placing exclusive jurisdiction over all matters relating to the approval and siting of LNG terminals under the Federal Energy Regulatory Commission (FERC). We believe these policy initiatives are critically important to the energy security, food security and national security of this nation.

TFI appreciates the opportunity to submit these comments to the Department of Commerce regarding the impact of increased natural gas prices on U.S. industries. Should you have any questions, please contact TFI Director of Government Relations Everett Zillinger at (202)-515-2705.

Sincerely yours,

Kraig R. Naasz
President

The Fertilizer Institute represents, by voluntary membership, more than 90 percent of the nation's fertilizer industry. Producers, manufacturers, retailers, trading firms and equipment manufacturers which comprise its membership are served by a full-time Washington, D.C. staff in various legislative, education and technical areas, as well as with information and public relations programs.

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May 17, 2005

Mr. David Henry
U.S. Department of Commerce
Economic and Statistics Administration
Office of Policy Development
14th Street & Pennsylvania Avenue, NW
Washington, DC 20230

Re: Natural Gas Price Impacts on Industry

Dear Mr. Henry:

On behalf of the American Forest & Paper Association ("AF&PA"), I offer the following comments in response to the Department of Commerce's Notice of Inquiry issued April 11, 2005. The Notice of Inquiry sought comments on the impact that recent increases in natural gas prices have had and will have on U.S. manufacturing industries. AF&PA appreciates this opportunity to comment, and is pleased that the Department's Economics and Statistics Administration is gathering this information from our industry. The impact of high natural gas prices on the forest and paper industry is not recent, and continues to have far-reaching, negative impacts; recent natural gas prices, price spikes and volatility have only exacerbated an already difficult situation.

AF&PA is the national trade association of the forest, pulp, paper, paperboard and wood products industry. We represent member companies engaged in growing, harvesting and processing wood and wood fiber, manufacturing pulp, paper and paperboard products from both virgin and recycled fiber, and producing engineered and traditional wood products. AF&PA's members include manufacturers of over 80 percent of the paper, wood and forest products produced in the United States. Our industry employs nearly 1.5 million people and ranks among the top ten manufacturing employers in 42 states with an estimated payroll of $51 billion.

As the Department is no doubt aware, natural gas is a critical fuel source for our industry and has become increasingly important in recent years as a clean fuel. The National Petroleum Council's September 2003 report entitled "Balancing Natural Gas Policy: Fueling the Demands of Growing Economy" ("NPC Study") presents a thorough and comprehensive analysis of the natural gas industry, including a detailed examination of the current state of, and future outlook for, the U.S. forest products industry. AF&PA directs the Department to that report as a good representation of the impacts of high natural gas prices on the forest and paper industry. In addition, I want to share with you the challenges that our members have had to meet and continue to experience every day, due to high natural gas prices.

The forest and paper industry is the third largest industrial consumer of energy in the United States. Pulp, paper and paperboard mills account for 12% of total manufacturing energy use in the U.S. While the industry is more than 60% energy self-sufficient through its use of renewable biomass fuels, it still relies heavily on natural gas for steam generation, product drying and environmental controls.

Wellhead prices for natural gas in the United States over $6 per million British thermal units (mmBtus) are more than twice the price 2 years ago, and triple the average price of the previous 20 years. Forest Products companies are being forced to pay more than $2 billion annually for the same amount of fuel.

The tripling of natural gas prices in recent years has significantly contributed to the closure of many plants and facilities. In fact, the paper and forest industry has lost 32% of its workforce in the last few years. Overall, the U.S. forest and paper industries experienced a decline in production from 1993 to 2003, with high gas prices being one of the major contributing factors.

Natural gas continues to serve a vital role in the industry. With sustained prices at their current levels and the threat of continued price increases, the industry will continue to suffer negative consequences, including the shuttering of plants and the elimination of jobs. The U.S. continues to experience the highest natural gas prices in the world, subjecting our industry to overseas competition from companies based in countries with significantly lower natural gas costs.

AF&PA urges the Department to make policy makers aware of these challenges, so that they may adequately address these concerns in the pending energy bill and take all other appropriate measures to preserve America's leading role in manufacturing. I again thank you for the opportunity to comment and for your consideration of our comments.

Very truly yours,

Ray J. Alvarez
Director of Energy Policy